

Message Text

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PAGE 01 BONN 13524 181711Z
ACTION SS-25

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P R 181655Z AUG 77
FM AMEMBASSY BONN
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INFO USMISSION USBERLIN

C O N F I D E N T I A L BONN 13524

EXDIS

E.O. 11652: GDS
TAGS: EAIR, WB, GW, FR, UK, US
SUBJECT: INTERNAL GERMAN SERVICE FARE INCREASE PROPOSAL

REF: A. CHESTER-RANDOLPH LETTER AUG 9, L977
B. BONN 12499 C. BONN 4133 (EXDIS)

1. WE CALCULATE FROM CAB FIGURES REF A THAT FIVE PERCENT INCREASE WOULD GIVE PAN AM TWELVE PERCENT RETURN ON INVESTMENT. THIS WAS WHAT PAN AM REPORTEDLY (REF C) TOLD BA WHEN LATTER FIRST PROPOSED SEVEN PERCENT INCREASE (LATER REFINED TO 7.8 PERCENT). THIS, OF COURSE, STRENGTHENS OUR SUSPICION THAT PAN AM REDID ITS CALCULATIONS TO JUSTIFY LARGER INCREASE.

2. EMBASSY CAA AUGUST 17 INFORMED BRITISH AND FRENCH CAA'S THAT THERE WAS POSSIBILITY USG WOULD NOT APPROVE FULL AMOUNT OF PAN AM APPLICATION AND THAT AMOUNT APPROVED MIGHT BE AS LOW AS FIVE PERCENT. ACTING FRENCH CAA RICHARD SAID HE THOUGHT HE COULD GO ALONG WITH WHATEVER WE AND UK AGREED UPON. UKCAA WILL CONFER WITH HMG AND BA TO SEE WHETHER HE WILL AGREE TO LOWER AMOUNT IF THIS IS FINAL US POSITION, WILL SEEK SEPARATE
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AND HIGHER INCREASE FOR BA OR WILL ATTEMPT TO PERSUADE US THAT WE SHOULD AGREE TO 7.8 PERCENT.

3. BA HAS COMPILED REPLIES TO QUESTIONS RAISED AT JULY 29 BCATAG MEETING (REF B) AND PAN AM HAS CLEARED REPLIES. CAA'S ARE SEEKING BCATAG MEETING SEPTEMBER 2 TO DISCUSS THIS MATERIAL. IF ALL ALLIED PARTIES ARE

AGREED BY THEN ON LEVEL OF FARE INCREASE, IT COULD PROBABLY BE MADE FINAL AT THAT MEETING AND TAKE EFFECT WITHIN A FEW DAYS.

4. COMMENT: WE BELIEVE THAT IF FIVE PERCENT IS IN FACT THE LEVEL OF INCREASE LIKELY TO BRING PAN AM THE STANDARD RETURN ON INVESTMENT, WE SHOULD HOLD FIRM AT THAT FIGURE. THIS WOULD HAVE LEAST FEASIBLE NEGATIVE EFFECT ON PASSENGER VOLUME. IT WOULD GO A LONG WAY TOWARD ESTABLISHING OUR CREDIBILITY WITH THE FRG AND BERLIN GOVERNMENTS. IT PROBABLY WOULD NOT DISTURB THE FRENCH VERY MUCH. THE UK WILL NOT BE PLEASED AND MAY EVEN DECIDE TO PRESS FOR A 7.8 PERCENT FOR BA ALONE. THIS WOULD BE DIFFICULT TO OBJECT TO, SINCE WE COULD NOT SUBJECT BA JUSTIFICATION TO CAB SCRUTINY BUT PRESUMABLY WOULD HAVE TO ACCEPT HMG JUDGEMENT THAT THE INCREASE IS JUSTIFIED FOR BA.

ACTION REQUESTED: DEPARTMENT'S VIEWS WOULD BE APPRECIATED.
STOESSEL

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